

Financial

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF TEACHERS' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying basic financial statements of the Teachers' Retirement Fund Board of Trustees, as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the Teachers' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the fiduciary funds of the Teachers' Retirement Fund Board of Trustees as of June 30, 2008, and the changes in the plan net assets of the fiduciary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Administrative Expenses, Investment Expenses, and Contractual and Professional Service Expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts
STATE BOARD OF ACCOUNTS

December 18, 2008

Management's Discussion and Analysis

Management's Discussion & Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Indiana State Teachers' Retirement Fund (TRF) financial statements for the fiscal year ended June 30, 2008. The MD&A is presented as a narrative overview and analysis. The MD&A should also be read in conjunction with the Financial Statements, the Notes to the Financial Statements, and the Required Supplemental Schedules.

Financial Highlights

- The net assets of TRF were \$8.6 billion as of June 30, 2008.
- The net assets of TRF decreased by \$417 million, or 4.6%, from the prior year. The decrease was primarily due to negative total returns on Fund investments, resulting in lower investment values.
- The TRF rate of return on investments for the year was negative 4.2% on a market value basis, compared to last year's positive 16.0%, as stocks provided negative returns and bonds provided an average return.
- As of June 30, 2007, the date of the most recent actuarial valuation, the Pre-1996 Account is actuarially funded at 36.1%, which is less than the 36.5% funded level as of June 30, 2006. The 1996 Account is actuarially funded at 95.9%, which is more than the 93.5% funded level as of June 30, 2006. The Pre-1996 Account includes all members who were hired before July 1, 1995 and have been continuously employed by the same Board of Education as they were on that date. The 1996 Account includes all other members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TRF's Financial Statements. The financial section of this Comprehensive Annual Financial Report is comprised of three components: (1) Financial Statements, (2) Notes to the Financial Statements, and (3) Required Supplemental Schedules. The information available in each of these sections is briefly summarized as follows:

1) Financial Statements

The Statement of Fiduciary Net Assets presents information on TRF's assets and liabilities and the

resulting net assets held in trust for pension benefits. This statement reflects TRF's investments, at fair value, along with cash and short-term investments, receivables, and other assets and liabilities. This statement indicates the net assets available to pay future pension benefits and gives a snapshot at a particular point in time.

The Statement of Changes in Fiduciary Net Assets presents information showing how TRF's net assets held in trust for pension benefits changed during the fiscal year ended June 30, 2008. It reflects contributions by members and employers, along with deductions for retirement and annuity benefits, administrative expenses, and other deductions. Investment income and losses during the period are also presented from investing and securities lending activities.

2) Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in TRF's Financial Statements.

3) Required Supplemental Schedules

The Required Supplemental Schedules consist of a Schedule of Funding Progress and a Schedule of Employer Contributions.

Financial Analysis

Total assets of TRF were \$11.5 billion as of June 30, 2008, compared with \$11.7 billion as of June 30, 2007. The decrease in total assets was primarily due to a decrease in the market value of investments and securities lending collateral, which was partially offset by an increase in receivables from securities sold during the fiscal year ended June 30, 2008.

Total liabilities were \$3.0 billion as of June 30, 2008, compared with \$2.7 billion as of June 30, 2007. The increase in total liabilities was due to an increase in payables for securities purchased and partially offset with a decrease in securities lending collateral.

As the table below shows, total net assets were \$8.6 billion as of June 30, 2008, which represents a decrease of \$417 million, or 4.6%, compared to the prior year, driven primarily by the decrease in market value of investments during the year.

Net Assets (Dollars in thousands)			
	June 30, 2008	June 30, 2007	% Change
Assets			
Cash and Cash Equivalents	\$ 811,941	\$ 817,158	(0.6)%
Securities Lending Collateral	1,217,423	1,448,921	(16.0)
Receivables	1,977,881	721,392	174.2
Investments	7,537,474	8,715,377	(13.5)
Other Assets	1	9	(89.0)
Total Assets	\$ 11,544,720	\$ 11,702,857	(1.4)%
Liabilities			
Securities Lending Collateral	1,217,423	1,448,921	(16.0)
Other Current Liabilities	1,763,278	1,273,082	38.5
Long-term Liabilities	60	60	-
Total Liabilities	\$ 2,980,761	\$ 2,722,063	9.5%
Total Net Assets	\$ 8,563,959	\$ 8,980,794	(4.6)%

Management's Discussion and Analysis

The following table presents TRF's investment allocation for June 30, 2008 compared to TRF's target investment allocation and the prior year's allocation. The allowable range for investments is also shown.

Investment Allocation				
	June 30, 2008 Actual	June 30, 2008 Target	June 30, 2007 Actual	Allowable Range for Investments
Domestic Equities	37.8%	35.0%	45.7%	30% to 40%
International Equity	22.5	20.0	21.2	16 to 24
Private Equity	5.7	10.0	3.7	8 to 12
Real Estate	5.9	8.0	4.4	6 to 10
Absolute Return	4.7	7.0	4.2	5 to 9
Fixed Income	23.4	20.0	20.8	15 to 25
Total	100.0%	100.0%	100.0%	

The remaining Private Equity target allocation of 4.3% will be drawn from the other investment classes and will happen over an extended time period, as suitable investments become available. The remaining 2.3% and 2.1% from Absolute Return and Real Estate, respectively, will be drawn from the other investment classes over approximately the next six months.

A summary of the changes in net assets during the fiscal years ended June 30, 2008 and June 30, 2007 are presented below:

Changes in Net Assets

(Dollars in thousands)

	Fiscal Year Ended		
	June 30, 2008	June 30, 2007	% Change
Additions			
Member Contributions	\$ 123,928	\$ 126,195	(1.8)%
Employer Contributions	778,128	723,039	7.6
Employer Contributions to Pension Stabilization Fund:	30,000	30,000	-
Net Investment Income	(381,080)	1,223,431	(131.1)
Transfer from Public Employees' Retirement Fund	3,188	3,841	(17.0)
Total Additions	\$ 554,164	\$ 2,106,506	(73.7)%
Deductions			
Pension and Disability Benefits	950,855	897,676	5.9
Distribution of Contributions and Interest	10,463	12,901	(18.9)
Administrative & Other Expenses	6,920	6,522	6.1
Transfer to Public Employees' Retirement Fund	2,761	37	7362.2
Total Deductions	\$ 970,999	\$ 917,136	5.9%
Net Increase in Net Assets Held in Trust for Pension Benefits	\$ (416,835)	\$ 1,189,370	(135.0)%
Net Assets - Beginning of Year	\$ 8,980,794	\$ 7,791,424	15.3%
Net Assets - End of Year	\$ 8,563,959	\$ 8,980,794	(4.6)%

Management's Discussion and Analysis

Additions

Additions needed to fund benefit payments are accumulated through contributions from members and employers and returns on invested funds. Member contributions for the year ended June 30, 2008 totaled \$123.9 million. This represents a decrease of \$2.3 million, or 1.8%, compared to the prior year. Employer contributions were \$778.1 million, an increase of \$55.1 million or 7.6%. The increase was due to larger appropriations made by the State of Indiana and new members for whom the employers were making contributions.

TRF recognized a net investment loss of \$381.1 million for the year ended June 30, 2008, compared to net investment income of \$1,223.4 million in the prior year. The lower investment income was primarily due to the fact that TRF's domestic equity investments posted a loss of 13.2% for the fiscal year. This compares to a loss of 13.1% for the S&P 500 index during the year. Domestic Mid Cap equities had a loss of 11.4%, as compared to a loss of 7.3% for the S&P 400 Mid Cap index during the fiscal year. Domestic Small Cap equities had a loss of 15.8%, as compared to a loss of 16.2% for the Russell 2000 index during the fiscal year. International equities had a loss of 9.2%, as compared to a loss of 6.2% for the EAFE (Europe Australasia and Far East) index during the fiscal year. Investment losses on equities were partially offset by TRF's fixed income portfolio, which achieved a positive total return of 5.4% for the fiscal year ended June 30, 2008. This compares to a gain of 7.1% for the Lehman Brothers Aggregate Index. The total rate of return on TRF's investments was a negative 4.2% compared to a positive 16.0% in the prior year.

Deductions

The deductions from TRF's net assets held in trust for pension benefits include primarily retirement, disability, and survivor benefits, distribution of contributions and interest, and administrative expenses. For the fiscal year ended June 30, 2008, retirement benefit payments amounted to \$950.9 million, an increase of \$53.2 million, or 5.9%, from the prior year. The increase in benefits was due to an increase both in the number of retirees and the average benefit paid. Distributions of contributions

and interest were \$10.5 million, which represents a decrease of 18.9% over the prior year. This was primarily the result of TRF's efforts to locate inactive members and encourage them to withdraw their funds in fiscal year 2007, which made that year higher than normal.

Administrative expenses were \$6.9 million, which was an increase of \$0.4 million, or 6.1%, from the prior year.

Historical Trends

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by TRF as of the latest actual valuations were as follows:

TRF Funded Ratios		
	July 1, 2007	July 1, 2006
Pre -1996 Account	36.1%	36.5%
1996 Account	95.9%	93.5%

An analysis of the funding progress and employer contributions is set forth in the Required Supplemental Schedules section of the Financial Statements.

Indiana State Teachers' Retirement Fund

As of June 30, 2008 and June 30, 2007*

(Dollars in thousands)

	2008	2007
<u>Assets</u>		
Cash and Cash Equivalents	\$ 811,941	\$ 817,158
Securities Lending Collateral	1,217,423	1,448,921
Receivables:		
Employer Contributions	38,103	29,246
Member Contributions	32,837	38,054
Interest and Dividends	30,138	32,567
Due from Public Employees' Retirement Fund	2,910	2,099
Securities Sold	1,873,893	619,426
Total Receivables	1,977,881	721,392
Investments:		
Debt Securities	2,859,697	3,893,862
Equity Securities	3,995,986	4,340,552
Other	681,791	480,963
Total Investments	7,537,474	8,715,377
Furniture and Equipment		
(Original Cost of \$187,041 Net of \$186,250 Accumulated Depreciation)	1	9
Total Assets	11,544,720	11,702,857
<u>Liabilities</u>		
Accrued Salaries Payable	163	128
Accrued Liability for Compensated Absences - Current	70	71
Accounts Payable	6,517	5,567
Due to Public Employees' Retirement Fund	588	-
Securities Lending Collateral	1,217,423	1,448,921
Payables for Securities Purchased	1,755,940	1,267,316
Total Current Liabilities	2,980,701	2,722,003
Accrued Liability for Compensated Absences - Long-Term	60	60
Total Liabilities	2,980,761	2,722,063
Net Assets Held in Trust for Pension Benefits		
(See Schedule of Funding Progress, page 37)	\$ 8,563,959	\$ 8,980,794

* The accompanying notes are an integral part of the Financial Statements.

Statement of Changes in Fiduciary Net Assets

Indiana State Teachers' Retirement Fund

For the fiscal years ended June 30, 2008 and June 30, 2007*

(Dollars in thousands)

	2008	2007
<u>Additions:</u>		
Contributions:		
Member Contributions	\$ 123,928	\$ 126,195
Employer Contributions	778,128	723,039
Employer Contributions - Pension Stabilization Fund	30,000	30,000
Total Contributions	<u>932,056</u>	<u>879,234</u>
Investment Income:		
Net Appreciation / (Depreciation) in Fair Value of Investments	(661,517)	945,150
Interest Income	204,181	200,435
Dividend Income	102,698	93,944
Securities Lending Income	53,553	77,860
Total Investment Income	<u>(301,085)</u>	<u>1,317,389</u>
Less Investment Expenses:		
Investment Fees	(33,778)	(19,594)
Securities Lending Fees	(46,217)	(74,364)
Net Investment Income	<u>(381,080)</u>	<u>1,223,431</u>
Other Additions:		
Transfer from Public Employees' Retirement Fund	3,188	3,841
Total Additions	<u>554,164</u>	<u>2,106,506</u>
<u>Deductions:</u>		
Pension and Disability Benefits	950,855	897,676
Distributions of Contributions and Interest	10,463	12,901
Administrative Expenses	6,911	6,501
Depreciation Expenses	9	21
Transfer to Public Employees' Retirement Fund	2,761	37
Total Deductions	<u>970,999</u>	<u>917,136</u>
Net Increase in Net Assets Held in Trust for Pension Benefits	(416,835)	1,189,370
Net Assets - Beginning of Year	8,980,794	7,791,424
Net Assets - End of Year	<u>\$ 8,563,959</u>	<u>\$ 8,980,794</u>

*The accompanying notes are an integral part of the financial statements.

Note 1**Summary of Significant Accounting Policies**

A. Reporting Entity - The Financial Statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2001, TRF became an independent body corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State but is an independent body corporate and politic exercising essential government functions. The members of the Board of Trustees of the Indiana State Teachers' Retirement Fund are appointed by the Governor of the State of Indiana, and a financial benefit/burden relationship exists between TRF and the State of Indiana. For these reasons, TRF is considered a component unit of the State of Indiana for financial statement reporting purposes.

B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared using Fund accounting in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. GASB Statement No. 25 has been implemented for the defined benefit pension plans.

C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.

D. Basis of Accounting - The records of this Fund

are maintained on a cash basis. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

E. Budgets - A budget for the administrative, project, and investment expenses is prepared and approved by the Board of Trustees.

F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorizes investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.

During the fiscal year ended June 30, 2005, the Fund adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) ("GASB 40"). The adoption of GASB 40 required the Fund to include a presentation of Deposit and Investment Risk Disclosures. The adoption of GASB 40 did not have an impact on the Fund's financial statements.

G. Method Used to Value Investments - GASB Statement No. 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded

Notes to the Financial Statements

on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

- H. Other Investments** - Other investments include investment in shares of limited liability partnerships, real estate securities, options, and swaps. Also included is property owned for investment purposes.
- I. Equipment** - Equipment with a cost of \$20,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five-year life of all assets.
- J. Contributions Receivable** - The contributions receivable were determined by using actual contributions received in July 2008, as well as estimated amounts yet to be received for days paid in the quarter ended June 30, 2008.
- K. Inventories** - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.
- L. Reserves and Designations**
The following are the legally required reserves and other designations of Fund equity:
- 1. Member Reserve:** The member reserve represents contributions made by or on behalf of the members plus any interest or earnings distributions, less amounts refunded

or transferred to the Benefits in Force reserve for retirement, disability, or other benefit. For the Indiana State Teachers' Retirement Fund, this reserve includes the members' Annuity Savings Accounts.

- 2. Benefits in Force:** This reserve represents the actuarial present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability for those members electing to annuitize their Annuity Savings Accounts. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve also includes \$2,084,453,822 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by Indiana Code 5-10.4-2-5. See Note 3 for further detail on the Pension Stabilization Fund. This reserve has an unfunded actuarial accrued liability.
- 3. Employer Reserves:** This reserve consists of the accumulated employer contributions plus earnings distributions, less transfers made to the Benefits in Force reserve of the actuarial pension cost. This reserve has an unfunded actuarial accrued liability.
- 4. Undistributed Investment Income Reserve:** This reserve was credited with all investment earnings. From this reserve, members' accounts are credited interest and earnings. The remaining balance is distributed to the reserve accounts listed above.

The following are the balances of the reserves and designations of Fund equity (dollars in thousands):

Member Reserve	Employer Reserve	Benefits in Force	Undistributed Income
Pre-1996 Account			
\$ 2,613,138	\$ -	\$ 3,031,036	\$ -
1996 Account			
649,840	1,845,250	424,696	-
Total			
\$ 3,262,978	\$ 1,845,250	\$ 3,455,732	\$ -

M. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year's end.

N. Compensated Absences - TRF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten, and twenty years of employment with the State of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and the salary-related payments that are expected to be liquidated are reported as Compensated Absences Liability.

Note 2

Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state or persons who are employed by the Fund. As of June 30, 2008, the number of participating school unit employers was:

Public School Units	356
Higher Education Units	3
State of Indiana Agencies	30
Associations	1
Total	390

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University and employees of the Fund. Additionally, faculty members at Ball State University and the University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of July 1, 2007, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries	
Currently Receiving Benefits	41,253
Active Plan Members	75,833
Nonvested Inactive Members	38,404
Vested Inactive Members	5,021
Total	160,511

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs if the member is at least age fifty with fifteen or more years of service or at age sixty-five with at least ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Notes to the Financial Statements

Regular Retirement (No Reduction Factor for Age)

Eligibility - Members are eligible at age sixty-five with ten years of service or age sixty with at least fifteen years of service or age fifty-five with age plus years of service totaling at least eighty-five.

There is no mandatory retirement age.

Annual Amount - The state pension is calculated by multiplying a member's total years of service by 1.1% of an average of the member's five highest years of compensation. An annuity purchased by the member's accumulated contributions is added to this amount unless the member elects to withdraw the accumulated contributions in a lump sum.

Early Retirement (Age Reduction Factor Used)

Eligibility - Members are eligible at age fifty with fifteen or more years of service.

Annual Amount - The state pension is computed as a regular retirement benefit but reduced one-tenth of 1% for each month that age at retirement is between sixty and sixty-five, and reduced five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)

Eligibility - Members are eligible once they have earned ten years of service. Benefit commences at age sixty-five or at age fifty if member has fifteen or more years of service.

Annual Amount - The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability

Eligibility - Members are eligible once they have earned five years of service.

Annual Amount - Members may receive \$125 per month plus \$5 for each year of service credit over five years.

Disability Retirement (No Reduction Factor for Age)

Eligibility - Members are eligible if they have earned five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - The benefit is computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Duty Death Before Retirement

Eligibility - Eligibility is available once fifteen years of service are earned and the spouse to whom the member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement:

No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the member contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The pick up amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, the designated beneficiary or estate is entitled to a lump sum settlement of contributions plus interest.

Indiana pension statutes stipulate that members of the Fund shall have the opportunity to direct their Annuity Savings Accounts into one of five current investment programs:

- 1. Guaranteed Fund** - Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are “guaranteed”. Market risk is assumed by the Fund.
- 2. Bond Fund** - This fund contains high quality fixed-income instruments which provide interest/capital gain income. Market risk is assumed by the member.
- 3. S&P 500 Index Fund** - This fund closely tracks the return on the S&P 500 Index by employing an indexing strategy that invests in the stocks of the S&P 500 Index companies. Market risk is assumed by the member.
- 4. Small Cap Equity Fund** - This fund consists of stocks with a market capitalization of less than \$1.5 billion. Market risk is assumed by the member.
- 5. International Equity Fund** - This fund consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S&P 500 Index Fund, Small Cap Fund, and International Fund are valued at market value. When a member retires, dies, or suspends membership and withdraws from the Fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment, less accrued investment expenses.

Members may only make a selection or re-allocation once per quarter. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

Note 3

Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation as of June 30, 2007, employer actuarially required contributions were \$742,882,002 of normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the fiscal year ended June 30, 2007 were \$753,039,657, which was 17.6% of covered payroll.

Note 4

Deposit and Investment Risk Disclosures

The Fund's investment policy states the following: “The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules. See IC 5-10.2 and IC 21-6.1.

Notes to the Financial Statements

“Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

“Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

“Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

“Thus, the primary governing statutory provision is that the Board must ‘invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.’ The Board is also required to diversify such investments in accordance with prudent investment standards. IC 21-6.1-3-9.”

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

The current strategic asset allocation is in the box below:

Domestic Equities	35%
International Equities	20
Private Equity	10
Real Estate	8
Absolute Return	7
Fixed Income	20
	<u>100%</u>

Interest Rate Risk

The Fund uses the Lehman Brothers Aggregate Index (LBA) as the benchmark for performance measurement of their fixed income managers. TRF's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

As of June 30, 2008, the Fund had the following debt investments and maturities:

Investment Maturities (Dollars in thousands)					
Investment Type:	Fair Value	(in Years)			
		Less than 1	1-5	5-10	More than 10
Short Term Investment Funds	\$ 519,487	\$ 519,487	\$ -	\$ -	\$ -
Short Term Bills and Notes	170,801	170,801			
Commercial Paper	33,657	33,657	-	-	-
Asset-Backed Securities	85,138	56,268	19,702	9,168	-
Commercial Mortgage- Backed Securities	514,465	12,882	259,095	242,488	-
Corporate Bonds	1,396,568	404,590	556,125	355,219	80,634
U.S. Agencies	192,658	9,325	47,418	88,505	47,410
U.S. Treasuries	91,308	-	51,313	16,034	23,961
Government Mortgage- Backed Securities	1,341,376	16,724	548,687	770,068	5,897
Municipal/Provincial Bonds	2,332	1,306	-	308	718
Collateralized Mortgage Obligations	76,999	14,308	52,790	9,295	606
Total	<u>\$ 4,424,789</u>	<u>\$ 1,239,348</u>	<u>\$ 1,535,130</u>	<u>\$ 1,491,085</u>	<u>\$ 159,226</u>

Notes to the Financial Statements

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund.

There was no custodial credit risk for investments, including investments related to securities lending collateral. Per Indiana Code 5-10.3-5-4(a) and Indiana Code 5-10.3-5-5, all Fund investments are to be held by banks under custodial agreements and all custodians are to be domiciled in the United States.

Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit account are carried at cost and are insured up to \$100,000 each. Deposits in the demand accounts held in excess of \$100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Cash deposits held with the custodian are carried at cost and are not insured or collateralized.

Cash Deposits (Dollars in thousands):

Demand Deposit Account – Bank Balance	\$	86,113
Demand Deposit Account – Book Balance		4,099
Held with Treasurer of State		4,155
Cash Held with Custodian	\$	142,427

Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by national rating agencies such as Moody's and Standard & Poor's.

The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's investments in debt securities. Ratings were obtained from Moody's and when not rated by Moody's, Standard & Poor's was used.

Rating	Fair Value	Percentage of Portfolio
Aaa	\$ 1,563,977	43.7%
Aa	179,745	5.0
A	352,036	9.8
Baa	557,636	15.6
Ba	63,754	1.8
B	48,681	1.4
Caa	17,982	0.5
Ca	5,453	0.2
Unrated	786,125	22.0
Total	\$ 3,575,389	100.0%

Concentration of Credit Risk

As of June 30, 2008, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Foreign Currency Risk

As of June 30, 2008, 14.6% of the Fund's investments were in foreign currencies. The table below breaks down the Fund's exposure to each foreign currency (in thousands of dollars):

Currency	Equities	Contracts, Cash, and Bonds	Total Fair Value	Percent of Total Fund Fair Value
Euro Currency Unit	\$ 472,231	\$ 28,979	\$ 501,210	5.9%
British Pound Sterling	132,901	7,806	140,707	1.7
Japanese Yen	191,428	2,198	193,626	2.3
Swiss Franc	59,301	432	59,733	0.7
Canadian Dollar	107,000	484	107,484	1.3
Hong Kong Dollar	36,193	506	36,699	0.4
Australian Dollar	8,068	(186)	7,882	0.1
Norwegian Krone	61,858	183	62,041	0.7
South Korean Won	17,250	-	17,250	0.2
Swedish Krona	61,365	248	61,613	0.7
Other	45,307	1,466	46,773	0.6
Totals	<u>\$ 1,192,902</u>	<u>\$ 42,116</u>	<u>\$ 1,235,018</u>	<u>14.6%</u>

Notes to the Financial Statements

Securities Lending

State statutes and the Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition, the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is adjusted to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year's end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceeds the amounts the borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Total cash collateral of \$1,217 million is invested in a pooled fund.

As of June 30, 2008, the Fund had the following securities on loan (dollars in thousands):

Security Type	Market Value of Loaned Securities Collateralized by Cash	Market Value of Loaned Securities Collateralized by Noncash	Total Securities Loaned
Global Equities	\$ 192,405	\$ 15,155	\$ 207,560
Global Fixed	8,125	-	8,125
U.S. Agencies	157,940	-	157,940
U.S. Corporate Fixed	187,170	-	187,170
U.S. Equities	499,544	8,198	507,742
U.S. Gov't Fixed	135,769	7,708	143,477
Total	\$ 1,180,953	\$ 31,061	\$ 1,212,014

Outstanding Short Sales

Short sales occur when investments have been sold which are not yet owned by the Fund. Prior to settlement of the sale, the investments will be procured. For the investments directly held by the Fund within the custody accounts, the outstanding short sales are included as accounts receivable from sales of investments and as negative investments. A schedule of the negative investments as of June 30, 2008 is listed below. The repurchase agreements reduced the cash equivalent investments and the remaining listed investments reduced the debt securities investments shown on the balance sheet. These transactions involve market risk, as the asset to be delivered may become more costly to procure and then losses would be realized.

Schedule of Outstanding Short Sales

June 30, 2008

(Dollars in thousands):

Type of Investment:

Repurchase Agreements	\$ 8,474
US Treasuries	860,305
Index Linked Gov't Bonds	5,927
Government Mortgage-Backed	404
Total	<u>\$ 875,110</u>

Derivative Financial Instruments

TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to

terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included cash and cash equivalent futures, equity derivatives-options, fixed income derivatives-options, rights/warrants, swaps, foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios' risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. At June 30, 2008, the total offset was \$704.2 million. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Cash and cash equivalent futures are used to manage exposure at the front end of the yield curve. These include swaps with duration of 1 year or less, and Eurodollar, Euribor, and other futures based on short-term interest rates. As of June 30, 2008, TRF's notional value in these instruments totaled \$81.4 million and an offset of equal value of \$81.4 million.

Notes to the Financial Statements

Equity derivatives—futures are used to gain exposure to an index or market sector. These may offer an opportunity to outperform due to active management of the liquid portfolio backing the exposure. Exposure is backed by an underlying fixed-income portfolio. As of June 30, 2008, TRF's equity derivatives position had a notional value of \$334.5 million and an offset of an equal value of \$334.5 million.

Fixed income derivatives—futures are used to manage interest rate fluctuations. As of June 30, 2008, TRF's fixed income futures had a notional value of \$288.4 million and an offset of an equal value of \$288.4 million.

Stock rights/warrants give the holder the right to buy a stock at a certain price until a certain date. As of June 30, 2008, the carrying value of TRF's stock rights and warrants totaled \$4.6 million.

Swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions ("received fixed") increase exposure to long-term interest rates; short positions ("pay fixed") decrease exposure. As of June 30, 2008, the market value of TRF's swaps was \$14.1 million and swap liabilities totaled \$23.5 million.

Foreign currency contracts are used to hedge against currency risk and to purchase investments in non-dollar currencies. A foreign currency contract is an agreement to buy and sell a specific amount of foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency contracts are marked to market on a daily basis. As of June 30, 2008, TRF had Pending Foreign Exchange purchases of \$500.0 million and Pending Foreign Exchange sales of \$499.8 million.

TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2008, the carrying value of TRF's CMO holdings totaled \$77.0 million.

Treasury inflation protected securities (TIPS) are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2008, TRF had \$1.4 million in TIPS holdings.

TRF has two investment accounts that use absolute return strategies. One account uses a Pure Alpha strategy, where value is added through a broadly diversified active portfolio of global fixed income, currency, equity, inflation-indexed bond, EMD, EMFX, and Option markets. As of June 30, 2008, TRF had \$127.1 million invested in this strategy. The other account is based on the concept of mean reversion. This strategy uses both top-down and bottom-up valuation methodologies to value asset classes, countries, and individual securities in order to allocate assets to undervalued countries, currencies, and securities. As of June 30, 2008, TRF had \$121.3 million invested in this strategy.

Note 5 Partnership Investments

The Board of Trustees had approved commitments and TRF had entered into agreements to fund limited liability partnerships of \$798.7 million as of June 30, 2008. The Fund had a net asset value of \$297.3 million, as of June 30, 2008, invested in these partnerships. The funding period for the amounts that TRF has already committed is from April 2002 to approximately June 2018. The outstanding commitments as of June 30, 2008, totaled \$318.5 million.

Note 6 Deferred Compensation Plan

The State offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Note 9

Employee Fund Membership

Employees of the Indiana State Teachers' Retirement Fund are eligible for membership in the Fund. Effective July 1, 2001, Indiana Code 21-6.1-4-1(a)-10 states that members of the Fund include persons who are employed by the Fund.

Note 10

Reserve Transfers with the Public Employees' Retirement Fund (PERF)

Transfers of a member's reserves are made between TRF and PERF when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF, if the member was last employed in a TRF-covered position. If the member was last employed in a PERF-covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the time the retirement benefit is calculated, TRF sets up a receivable from PERF for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit.

Note 11

Actuarial Funding Status of the Fund

As of June 30, 2007, TRF was 45.1% funded. As stated in Note 3, members hired before July 1, 1995 are funded with a pay-as-you-go method for the employer portion of the pension and members hired after July 1, 1995 are funded with employer contributions as they work. TRF accounts for these two classes of members as Pre-1996 Account and 1996 Account, respectively. The Pre-1996 Account is 36.1% funded and the 1996 Account is 95.9% funded.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note 7

Contingent Liabilities

The Indiana State Teachers' Retirement Fund is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid by the Fund.

Note 8

Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

Notes to the Financial Statements

The actuarial methods and significant assumptions used by TRF are summarized in the first table below:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay Closed
Amortization Period	30 Years
Asset Valuation Method	4-year Smoothed Market Value with Corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increase	4.50% - 15.50%
Included Wage Inflation	4.50%
Cost of Living Adjustments	1.5% Compounded Annually on Pension Portion

The funded ratio of the Fund has increased from 42% as of June 30, 2002 to the ratio of 45% as of June 30, 2007. A historical look at the funded status of the Fund can be found in the Required Supplemental Schedules provided.

The actuarial value of the Fund's assets as of the June 30, 2007 valuation was \$8,476,559,086 and the actuarial accrued liability was \$18,815,812,935. The difference is the Fund's unfunded actuarial accrued liability of \$10,339,253,849. The annual covered payroll as of the June 30, 2007 actuarial valuation was \$4,267,995,166 and the ratio of the unfunded actuarial liability to the annual covered payroll was 242%.

As a point of reference, based on unaudited reports from Northern Trust, the value of the TRF portfolio has declined approximately 22% as of November 30, 2008 as compared to the June 30, 2008, fiscal year end value. In light of this significant market decline, any judgment of the system's financial position should be based on current information rather than fiscal year end.

The TRF investment philosophy continues to focus on broadening the diversification of the portfolio. Over a long-term horizon, the portfolio is expected to have more protection from fluctuating market conditions as a result of the multi-year diversification plan adopted by the Board in fiscal year 2007.

Note 12 Subsequent Events

The financial markets experienced significant volatility subsequent to the June 30, 2008 fiscal year end due to the credit market crisis and concerns about global recession and other market factors. Despite government support designed to keep the global financial system from collapsing, steep declines and periodic boosts in value were experienced, indicating a continued uncertainty of global market conditions.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry-Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b)-(a)	(a) / (b)	(c)	(b)-(a) / (c)
Pre-1996 Account						
06/30/02	\$ 5,555,352	\$ 13,497,778	\$ 7,942,426	41%	\$ 2,604,995	305%
06/30/03	5,728,553	13,354,866	7,626,313	43	2,448,271	311
06/30/04	5,765,668	13,548,525	7,782,857	43	2,384,480	326
06/30/05	5,796,724	14,254,147	8,457,423	41	2,305,726	367
06/30/06	5,477,221	15,002,471	9,525,250	37	2,237,380	426
06/30/07	5,763,508	15,988,259	10,224,751	36	2,376,390	430
1996 Account						
06/30/02	\$ 621,223	\$ 1,166,883	\$ 545,660	53%	\$ 1,004,515	54%
06/30/03	825,812	1,392,473	566,661	59	1,136,864	50
06/30/04	1,038,727	1,649,401	610,674	63	1,267,173	48
06/30/05	1,268,575	2,010,746	742,171	63	1,428,604	52
06/30/06	2,209,468	2,363,101	153,633	93	1,565,341	10
06/30/07	2,713,051	2,827,554	114,503	96	1,891,605	6
Total Fund						
06/30/02	\$ 6,176,575	\$ 14,664,661	\$ 8,488,086	42%	\$ 3,609,470	235%
06/30/03	6,554,365	14,747,339	8,192,974	44	3,585,135	229
06/30/04	6,804,395	15,197,926	8,393,531	45	3,651,653	230
06/30/05	7,065,299	16,264,893	9,199,594	43	3,734,329	246
06/30/06	7,686,689	17,365,572	9,678,883	44	3,802,721	255
06/30/07	8,476,559	18,815,813	10,339,254	45	4,267,995	242

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
06/30/03	06/30/01	\$ 572,226	\$ 602,232	106%
06/30/04	06/30/02	638,541	438,180	69
06/30/05	06/30/03	619,186	484,779	78
06/30/06	06/30/04	672,556	701,340	104
06/30/07	06/30/05	742,882	753,040	101
06/30/08	06/30/06	800,059	808,128	101

Administrative Expenses

Indiana State Teachers' Retirement Fund Other Supplementary Information

Fiscal Year Ended June 30, 2008
(Dollars in thousands)

Personnel Services:	
Salaries and Wages	\$ 2,230
Employee Benefits	741
Temporary Services	16
Board of Trustees Per Diems	5
Total Personnel Services	<u>2,992</u>
Contractual and Professional Services:	
Information Technology	2,287
Actuarial Services	119
Legal Services	77
Audit Services	40
Benchmarking Services	35
Other	14
Total Contractual and Professional Services	<u>2,572</u>
Communications:	
Printing	425
Postage	397
Telephone	56
Travel	51
Total Communications	<u>929</u>
Miscellaneous:	
Office Rent	295
Office Supplies	53
Memberships & Training	26
Equipment Rental	25
Other Administrative Expenses	19
Total Miscellaneous	<u>418</u>
Total Administrative Expenses	<u>\$ 6,911</u>

Indiana State Teachers' Retirement Fund Other Supplementary Information

Fiscal Year Ended June 30, 2008
(Dollars in thousands)

Custodial and Consulting:	
Investment Consultant	\$ 471
Investment Custodian	326
Investment Benchmarking	20
Total Custodial and Consulting Expenses	<u>817</u>
Securities Lending Program:	
Securities Lending Income	(53,553)
Securities Lending Fees	46,217
Total Securities Lending Program	<u>(7,336)</u>
Investment Management Fees	32,408
Investment Staff Expenses	380
Administrative Investment Expenses	173
Total Investment Expenses	<u><u>\$ 26,442</u></u>

Contractual and Professional Services Expenses

Indiana State Teachers' Retirement Fund Other Supplementary Information

Fiscal Year Ended June 30, 2008

(Dollars in thousands)

Individual or Firm	Fee	Nature of Services
Indiana Office of Technology	\$ 1,643	IT System Development and Network Support
Public Employees' Retirement Fund	161	Computer and Legal Shared Services
KPMG	140	Business Systems Consulting
A. Wilson	87	Computer Systems Consulting
Alliance Benefit Group	99	Actuarial and Legislative Services
RCR Technology	85	Technical Writer for Procedure Documentation
Office Liquidators	68	Renovation Services
Ernst & Young	68	Consulting Services
Indiana Commission on Public Records	54	Imaging Services
State Board of Accounts	40	Audit Services
CEM Benchmarking, Inc.	35	Benchmarking Services
Krieg Devault, LLP	32	Legal Services
Ice Miller, LLC	26	Legal Services
Gabriel Roeder Smith & Company	20	Actuarial Services
Pension Benefit Information	12	Death Services
Metacomunications	1	Computer Services
St. Francis Occupational Health Center	1	Medical Consulting
Total Contractual and Professional Services Expenses	<u>\$ 2,572</u>	

Fees paid to investment professionals can be found in the Investments Section.

